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C O N F I D E N T I A L SECTION 01 OF 03 MANILA 001838

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TAGS: [PBTS](#) [PGOV](#) [PREL](#) [RP](#) [TW](#) [VM](#) [CH](#) [PG](#)
SUBJECT: CONTROVERSY OVER SPRATLY ISLANDS TERRITORIAL
DISPUTE CONTINUES TO SIMMER

REF: A. MANILA 998
[B. MANILA 404](#)
[C. MANILA 317](#)
[D. 2007 MANILA 1991 AND PREVIOUS](#)

Classified By: Ambassador Kristie A. Kenney, Reasons 1.4 (b) and (d)

[1. \(C\)](#) SUMMARY: Recent steep increases in the cost of petroleum and pending deadlines associated with the UN Convention on the Law of the Sea (UNCLOS) have kept the six-nation territorial dispute over the Spratly Islands in the eye of public debate in the Philippines. The underlying controversy over the Spratlys strikes a chord in Philippine national pride, both because of the awareness that the Philippine armed forces cannot defend the Philippines' claim to the islands, and because of concern over growing Chinese influence in the region. In addition, there is widespread suspicion that corruption may influence Philippine policy. Competing views on how strongly the Philippines should press its claim to the islands are closely linked to political affiliations. In a move at least partly intended to defuse further criticism of its cooperation with China and Vietnam in exploring the Spratlys' mineral resources, the Arroyo administration allowed its Joint Marine Seismic Undertaking (JMSU) agreement with those countries to lapse when its term expired June 30. END SUMMARY.

Background

[2. \(SBU\)](#) The Spratly Islands of the South China Sea are the object of overlapping sovereignty claims by China, the Philippines, Vietnam, Taiwan, Malaysia, and Brunei to various islands believed to be rich in natural resources -- chiefly oil, natural gas, and seafoods. The Spratlys consist of some 100-230 islets, atolls, coral reefs, and seamounts spread over 250,000 square kilometers, although the island chain's total landmass equals less than five square kilometers. In 1988 and 1992, these sovereignty disputes led to naval clashes between China and Vietnam. The 2002 ASEAN-China Declaration on the Conduct of Parties in the South China Sea lowered tensions in the region by calling for self-restraint, cooperation, and renunciation of the use of force among all parties.

Growing Regional Tension Over Spratlys

[3. \(C\)](#) In September 2004, the Philippine and Chinese national oil companies agreed to conduct seismic soundings in the South China Sea. In March 2005, the Joint Marine Seismic Undertaking (JMSU) agreement among China, Vietnam, and the Philippines coordinated "pre-exploration" of possible hydrocarbon reserves, and an exclusive contract was awarded to a state-owned Chinese company to conduct the surveys. However, the disputes have not ceased. In April 2007, China accused Vietnam of violating its sovereignty by allowing a

consortium of energy companies led by British Petroleum to develop gas fields off Vietnam's southeast coast, and in July 2007, Chinese naval vessels fired on a Vietnamese fishing boat, killing one sailor.

UN Law of the Sea

¶4. (C) The Philippines, along with Brunei, Malaysia, and Vietnam, have overlapping claims to some or all of the Spratlys based on the UN Convention on Law of the Sea (UNCLOS). Under UNCLOS, the Philippines must meet a May 12, 2009, deadline in defining the territorial baselines of the Philippine archipelago. At issue for the Philippines has been whether to include the Spratlys within its UNCLOS baselines, or restrict the baselines to territorial limits outlined in the 1898 Treaty of Paris, whereby Spain ceded the Philippines to the United States following the Spanish-American War. Even in the latter case, under UNCLOS, the Philippines still retains an Exclusive Economic Zone (EEZ) of 200 nm, and may claim an extended continental shelf of 350 nm; the latter would appear to encompass virtually all of the Spratlys. Even the Philippines' 200 nm EEZ includes most of the islands, while the 200 nm EEZs of China, Taiwan, and Vietnam include few or none.

The China Card

¶5. (C) Recent corruption scandals involving Chinese investments and development assistance have spilled over to affect the debate over the Spratlys. In September 2007,

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allegations arose that President Arroyo's husband Mike Arroyo had accepted multimillion-dollar kickbacks from the Chinese in return for facilitating a \$349 million telecommunications deal between the Chinese ZTE Corporation and the Philippines' National Broadband Network (NBN); the deal was soon scrapped (reftel B). This and other recent scandals involving the Chinese led to charges in Congress and media circles that the Arroyo administration had likewise assented to the Spratlys joint seismic exploration deal in exchange for bribe-tainted loans, and that the government's attempts to get Congress to back off on inclusion of the Spratlys in Philippine baselines was similarly motivated by illicit Chinese influence. In mid-May, reports surfaced in the national media outlining new eyewitness accounts of secret 2006 meetings in Shenzhen, China, between President Arroyo and ZTE officials, serving to keep the Chinese angle of the controversy in the public eye. Controversy has similarly touched the primarily Chinese-financed and Chinese-contracted North Luzon Railways (Northrail) project, which entails the construction of an 80-kilometer railway from metropolitan Manila to the Clark Freeport. Chinese-Philippine disputes resulted in a March cessation of construction.

Three Different Approaches

¶6. (C) In August 2007, Senator Antonio Trillanes filed Senate Bill 1467, which defined the Philippines' baselines as including the main archipelago described in the 1898 Treaty of Paris (the current Philippines), plus Scarborough Shoal, while classifying the Spratlys as a "regime of islands" outside the baselines. However, under the December 2007 House Bill 3216 submitted by Foreign Affairs Committee Chair Rep. Antonio Cuenco, the Philippines' baselines would include not only the main archipelago (Treaty of Paris), but also the Spratlys and Scarborough Shoal. Cuenco said publicly that a December 2007 Chinese note verbale to the Philippine Embassy in Beijing expressed Chinese "shock and concern" that his bill had defined the Philippine baselines to include the Spratlys. Fearing that the inclusion of the Spratlys in Philippine territorial baselines would provoke China, inflame tensions in the South China Sea, and upset the delicate

status quo, the Arroyo administration pursued a third approach, pressing Congress to revisit the baselines issue and include only the main archipelago, leaving the Spratlys and Scarborough classed as "regimes of islands." Administration supporters argued that the Philippines would have no hope of winning a war against China.

Free-for-all in the Congress

¶7. (C) The highly-publicized February 2 visit to the Spratlys by Taiwanese President Chen Shui-bian re-ignited debate over the islands (reftel C). In March, then - Philippine Air Force Commander Lt. Gen. Pedrito Cadungog announced that the airstrip would be upgraded at Pagasa Island (also known as Thitu or Zhongye Dao), home to a Philippine military base and a civilian settlement of more than 300 Filipinos. Then- Armed Forces Chief of Staff Gen. Hermogenes Esperon underscored that a beefed-up Philippine military presence in the islands stood ready to defend Philippine sovereignty. Although Cuenco's House bill including the Spratlys and Scarborough Shoal was tabled April 21 over the objections of its author, on April 22, Senate Minority Leader Aquilino Pimentel called the Arroyo administration's exclusion of the Spratlys from the baselines treasonous, and called for the adoption of the House bill in its entirety. Dialogue perhaps reached its low point soon afterwards, when pro-administration Senator (and International Court of Justice candidate) Miriam Defensor-Santiago criticized House members for "shooting their mouths off," and characterized the Administration's legislative opponents in the Spratlys debate as "idiots."

Embassy Reaction: Studied Neutrality

¶8. (C) When questioned by the Philippine media about the U.S. position on the Spratlys, the Ambassador and other USG officials have consistently stressed that the U.S. is not a party to territorial disputes in the region, and that it is our hope that all such conflicts will be resolved peacefully among the relevant parties in accordance with applicable international law. For example, at the May 26 opening ceremony in Puerto Princesa, Palawan Island for the U.S.-Philippine Cooperation Afloat and Readiness Training (CARAT) bilateral naval exercise, national media pressed Rear Admiral Nora Tyson and Embassy Press Officer over whether the

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presence of such a robust American naval force (five vessels, including two guided-missile frigates) in the Spratlys area indicated a U.S. endorsement of Philippine claims, and an intention to assist in defense of those claims. We carefully responded that the purpose of the bilateral naval exercise in question was to build capacity for interoperability and bilateral cooperation, that the exercise would not be carried out in the Spratlys area, and that the U.S. calls on all claimants to resolve the issue peacefully.

Comment

¶9. (C) The Spratlys controversy represents something of a strategic conundrum to the Arroyo administration. Filipino nationalism and widespread suspicion over China's intentions in the region militate in favor of the government taking a more aggressive stance in advocating for Philippine sovereignty over the islands, and the terms of the UNCLOS likewise tend to favor such a position. For these reasons, the Arroyo administration had little choice but to allow the JMSU agreement to lapse when it expired on June 30, even though doing so posed a setback to its relations with China. On the other hand, the Philippines is the weaker party in an increasingly asymmetric relationship with China, and Philippine military forces are sufficiently occupied in addressing the nation's insurgent groups, without the added

worry of projecting power in the South China Sea. It is clearly not in the Philippines' best interests to allow tensions in the South China Sea to escalate to the level of armed confrontations. Against a backdrop of rising oil prices and growing demand for offshore energy reserves, controversy over control of the Spratlys' resources seems likely to continue. END COMMENT.
KENNEY